1975 ANNUAL REPORT

rapid-american corporation

Corporate Officers

MESHULAM RIKLIS
Chairman of the Board and
Chief Executive Officer

HAIM BERNSTEIN
Vice President

ISIDORE A. BECKER
President

BERNARD J. BLANEY
Treasurer

STUART H. AARONS
Secretary

LEONARD C. LANE
Executive Vice President

MICHAEL J. MAGENHEIM
Assistant Treasurer

Board of Directors

ISIDORE A. BECKER*
President of Rapid-American Corporation; Chairman of the Board of Schenley Industries, Inc.; Vice Chairman of the Board of McCrory Corporation

HAIM BERNSTEIN
Vice President of Rapid-American Corporation and McCrory Corporation; President of Meridian-York Corporation (real estate and insurance brokerage)

BERNARD KOBROVSKY**
Private investor

FRED KORROS
Account executive, Harrison & Co. (stock brokers)

LEONARD C. LANE†
Executive Vice President of Rapid-American Corporation

SAMUEL J. LEVY*
Chairman of the Board of Southern Packaging & Design Corp. (woven labels)

MESHULAM RIKLIS*
Chairman of the Board and Chief Executive Officer of Rapid-American Corporation and McCrory Corporation

PINHAS RIKLIS**
Chairman of the Board of Garay & Co., Inc. (ladies' handbags and belts)

LORENCE A. SILVERBERG*
Executive Vice President of McCrory Corporation

† Chairman of the Executive Committee and the Audit Committee
* Member of the Executive Committee
** Member of the Audit Committee

Corporate Information

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New York, N. Y. 10004

Tax Consultant
Arnold Broser, Esq.
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New York, N. Y. 10019

Executive Offices
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Co-Counsel
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Constant & Friedman
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New York, N. Y. 10022

Fried, Frank, Harris,
Shriver & Jacobson
120 Broadway
New York, N. Y. 10005

10-K Report

The Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stockholders without charge upon written request to: Secretary, Rapid-American Corporation, 888 Seventh Avenue, New York, N. Y. 10019.

To Our Stockholders:

Fiscal 1975, although difficult and challenging like the prior year, was a year of accomplishment. Concentrating our efforts on close supervision of every operating unit we believe that the full impact of our efforts during 1975 will be evident in fiscal 1976 and future years.

The detailed financial results for the years ended January 31, 1976 and 1975 are presented on the following pages along with this brief review of recent significant events.

On March 12, 1976, McCrory Corporation, then a 62.4% owned subsidiary, was merged with a wholly-owned subsidiary of Rapid-American and Rapid-American thereby became the owner of all of the outstanding common stock of McCrory. Upon the merger, McCrory common stockholders received one half of a share of Rapid-American common stock for each share of McCrory common stock owned. We take this opportunity to welcome these new stockholders.

On November 7, 1975, Rapid-American sold its Playtex operation to Esmark, Inc. for cash and securities of Esmark, and at the same time reduced and restructured its bank debt.

The McCrory Variety Stores division returned to profitability in fiscal 1975 assisted by a program established to maintain lower inventory levels, eliminate unprofitable stores and control costs. Lerner Shops, which has a continuous record of improved earnings, achieved the highest sales and earnings in its history during fiscal '75. OTASCO Stores reported a slight decline in earnings in fiscal 1975 compared with the prior year.

As previously reported, after the close of fiscal 1974, management of McCrory decided to phase out completely the operations of S. Klein and provisions aggregating $40 million (after income tax benefit of $34.7 million) were recorded during the last two fiscal years. The program of closing all S. Klein stores was completed in fiscal 1975.

In a year of changing tastes by consumers of alcoholic beverages, Schenley continued to be a very profitable operation. A strong fourth quarter performance resulted in only a small decline in earnings from operations for the year compared with the prior year. In July 1975, Schenley sold its 75% interest in Long John International Limited, a British distilling corporation.

Some of Rapid-American's smaller divisions were again disappointing in their performance during 1975, but their outlook for fiscal '76 is promising in light of current retail buyer acceptance. We have replaced management in some of these operations and consolidated other operations under proven managers. It is our belief that product lines have been improved and upgraded and will receive greater consumer acceptance. We anticipate that these changes will show positive results in the second half of fiscal 1976.

We look forward with confidence to fiscal '76 and anticipate that our business will continue to show improvement in the years ahead.

Sincerely,

ISIDORE A. BECKER,
President

MESHULAM RIKLIS,
Chairman

April 30, 1976

FIVE YEAR SUMMARY OF CONSOLIDATED OPERATIONS

	Fiscal Years Ended January 31,				
	(In thousands, except per share amounts)				
	1976	1975(a)	1974	1973	1972
Revenues(b)	$2,296,195	$2,269,133	$2,244,872	$1,970,829	$1,623,146
Costs and expenses(b)(c)	2,202,188	2,186,725	2,109,566	1,846,496	1,522,184
Interest and debt expense	119,190	143,416	105,302	76,702	71,830
Provision (benefit) for income taxes	(6,563)	5,197	13,322	21,185	14,755
Minority interest	5,097	1,719	10,040	17,235	12,840
	2,319,912	2,337,057	2,238,230	1,961,618	1,621,609
Income (loss) from continuing operations before extraordinary items	(23,717)	(67,924)	6,642	9,211	1,537
Income (loss) from operations discontinued or sold	14,277	(1,674)	22,887	20,621	21,575
Income (loss) before extraordinary items	(9,440)	(69,598)	29,529	29,832	23,112
Extraordinary items	14,715	—	—	(8,365)	2,463
Net income (loss)	5,275	(69,598)	29,529	21,467	25,575
Consolidated preferred dividend requirements	1,652	1,739	2,012	3,253	4,270
Net income (loss) applicable to common stockholders	$ 3,623	$ (71,337)	$ 27,517	$ 18,214	$ 21,305
Income (loss) per share:					
Primary:					
Continuing operations	$(3.68)	$(10.25)	$ .55	$ .76	$ (.47)
Operations discontinued or sold	2.07	(.25)	2.59	2.57	3.19
Extraordinary items	2.14	—	—	(.97)	.36
Net income (loss)	$ .53	$(10.50)	$3.14	$2.36	$3.08
Fully diluted:					
Continuing operations	(d)	(d)	$ .53	$ .78	$ (.14)
Operations discontinued or sold	(d)	(d)	2.11	1.55	1.89
Extraordinary items	(d)	—	—	(.34)	.23
Net income (loss)	(d)	(d)	$2.64	$1.99	$1.98

(a) Restated to eliminate the future tax benefits attributable primarily to the net operating loss carry-forward previously recognized in such year.

(b) Includes Federal excise taxes, import duties and state liquor taxes of approximately $352,329,000, $351,446,000, $355,696,000, $345,321,000 and $327,040,000, respectively.

(c) Includes provisions of $19,679,000 and $10,441,000 during the years ended January 31, 1976 and 1975, respectively, for the disposition of certain operations and, in 1976, for the store closing programs and loss on lease.

(d) Anti-dilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FIVE YEAR SUMMARY OF CONSOLIDATED OPERATIONS

During the past several fiscal years there have been significant developments relating to Rapid-American's business and corporate structure, including acquisitions, dispositions and business combinations, which have had a material effect on the consolidated operations.

Rapid-American's results of consolidated operations were materially affected (i) in the two years ended January 31, 1976 by provisions for estimated losses related to McCrory's decision to phase out the operations of S. Klein and provisions for the disposition of certain consumer products operations; (ii) in the year ended January 31, 1976 by McCrory's provision for store closing programs and Rapid-American's provision for loss on lease; (iii) in the year ended January 31, 1974 by McCrory's write-off of excess of cost of investment over related equity attributable to S. Klein; and (iv) in the two years ended January 31, 1975 by S. Klein's operating losses (included in results of operations discontinued or sold).

The decrease in Rapid-American's loss from continuing operations before extraordinary credit in the year ended January 31, 1976, compared with the prior year (as restated), resulted primarily from (i) decreased interest expense, due principally to a decline in short-term borrowing levels, lower interest rates and the repayment of long-term debt (see Notes 6 and 7 to Financial Statements); (ii) the improved operating performance of McCrory (after the provision for store closing programs [see Note 11 to Financial Statements] and minority interest); (iii) a significant reduction in provision for disposition of certain consumer products operations (see Note 9 to Financial Statements); and (iv) the tax benefitting of Rapid-Amercian's losses from continuing operations (see Note 12 to Financial Statements).

McCrory's increase in its income from continuing operations in the year ended January 31, 1976 as compared with the prior year was primarily attributable to (i) an improvement in economic conditions conducive to retail sales, (ii) the closing of marginal and unprofitable stores, (iii) reduced interest expense due to a reduction in interest rates and (iv) expense controls in the Variety Stores division instituted in the latter part of 1974 and the beginning of 1975. These factors were offset in part by the provision for store closing programs and by an increase in the loss of the Canadian operations. The increase in McCrory's revenues from continuing operations in the year ended January 31, 1976 compared with the prior year was primarily attributable to increased sales of Lerner, reflecting increased consumer acceptance of apparel specialty products.

Rapid-American's loss from continuing operations in the year ended January 31, 1975 (as restated) compared with its income in the prior year resulted principally from (i) losses incurred by those consumer products operations which Rapid-American disposed of and a provision for losses and expenses relating to the disposition of those operations (see Note 9 to Financial Statements); (ii) general economic conditions which affected the earnings of Schenley and McCrory and which were the major factor in losses incurred by Botany '500' (formerly Joseph H. Cohen); (iii) increased losses incurred by certain B.V.D. operations, particularly its underwear division, due to production problems and lack of consumer acceptance (see Note 4 to Financial Statements), and increased losses incurred by Leeds Travelwear due to lack of consumer demand and a change in the product mix, which resulted in increased inventory levels; and (iv) an increase in interest expense stemming from higher interest rates and increased debt levels which, at Schenley, was due largely to the maintenance of higher inventory levels caused principally by price increases in raw materials. During the year ended January 31, 1975, no tax benefit was recognized for Rapid's net operating loss carryforward (see Note 12 to Financial Statements).

McCrory's decrease in income from continuing operations for the year ended January 31, 1975 compared with the prior year resulted primarily from (i) the increased costs of doing business caused by inflationary pressures as well as general economic conditions which caused, in part, heavier than normal markdowns, particularly in the Variety Stores and Britts Department Stores divisions, where a decline in sales was experienced; and (ii) increased interest and debt expense, principally because of higher interest rates and higher debt levels. The higher debt levels stemmed in part from the debt issued in connection with the elimination of the minority interest in Lerner, which substantially offset the interest and debt expense related to that debt.

The decrease in Rapid-American's income from continuing operations for the year ended January 31, 1974 compared with the prior year resulted principally from decreases in operating results of McCrory, Rapid-American's men's clothing operations, the B.V.D. underwear division and Leeds Travelwear, and increased interest and debt expense, which were offset in part by the improved operating results of Schenley.

BRIEF DESCRIPTION OF BUSINESS OPERATIONS

Rapid-American's principal lines of business are the production, importation and sale of alcoholic beverages, retail merchandising and the manufacture and sale of a variety of consumer products. The following table shows the percentage contribution to net sales and operating profit (loss) from continuing operations for the five years ended January 31, 1976 of each major line of business. Rapid-American incurred a loss from continuing operations for the years ended January 31, 1976 and 1975.

	1976	1975	1974	1973[1]	1972
Net sales:					
Alcoholic beverages (Schenley)..........	34.4%	33.6%	33.3%	35.3%	39.5%
Retail merchandising (McCrory)..........	58.9	56.7	56.4	53.0	47.3
Consumer products..........................	6.7	9.7	10.3	11.7	13.2
	100.0%	100.0%	100.0%	100.0%	100.0%
Operating profit (loss) [2]:					
Alcoholic beverages (Schenley)..........	43.3%	65.2%	43.6%	38.8%	40.5%
Retail merchandising (McCrory)..........	77.1	62.1	60.3	59.1	58.0
Consumer products..........................	(20.4)	(27.3)	(3.9)	2.1	1.5
	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Operations of J. J. Newberry Co., a subsidiary of McCrory, are included from September 1, 1972, date of acquisition.

[2] For purposes of the table, operating profit (loss) represents net sales reduced by: cost of goods sold; selling, advertising, general and administrative expenses; and depreciation and amortization.

Alcoholic Beverages

Schenley Industries, Inc., a subsidiary, is engaged in the production, importation and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties. Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States and, in some cases, overseas distribution rights. In the year ended January 31, 1976, the five largest contributors to Schenley's operating income were *Dewar's White Label* Scotch whisky, *Old Charter* and *Ancient Age* bourbon whiskies, *Mateus* wine and *I. W. Harper* bourbon whiskey. *Dewar's White Label* Scotch whisky and *Mateus* wine are sold by Schenley under distribution contracts with their producers.

Consumer Products

Rapid-American's consumer products group manufactures (a) ladies' lingerie, sleepwear and undergarments sold under the "Gilead" and other trademarks, (b) popular priced and medium priced suits and sport coats sold by Botany '500', Cross Country Clothes and New Era, divisions of Rapid-American Menswear, Inc., under private labels and under such trademarks as "Botany 500", "Fashion Park", "Stein Bloch" and others, (c) men's and boys' underwear, shirts, sport shirts and ties sold under the trademarks "B.V.D.", "Botany 500", "Wonderknit", "Beau Brummell" and "Mr. John" and other trademarks; and (d) luggage, bowling bags and golf bags manufactured by Leeds Travelwear primarily under its own trademarks.

Retail Merchandising

McCrory Corporation, a subsidiary, is a broadly based retailing organization. At January 31, 1976, it operated 907 variety stores in the United States under various trade names, including "McCrory", "McLellan", "H. L. Green" and "J. J. Newberry"; a chain of 224 company-owned and 396 franchised retail automotive and home accessories stores under the trade name "OTASCO Stores"; a chain of 29 "Britts" department stores; 464 retail stores, operating under the trade name "Lerner Shops", specializing in the sale of women's and children's apparel; and, in Canada, 40 "Harrison's" fabric stores and Gault Brothers, principally a distributor of general merchandise to retail establishments.

1975

ANNUAL REPORT

Financial Statements

rapid-american corporation

CONSOLIDATED BALANCE SHEET

ASSETS	*January 31, 1976*	*1975*
Current Assets:		
Cash, including certificates of deposit ($1,176,000 and $20,377,000)	$ 79,458,000	$ 78,803,000
Trade receivables, less allowances ($7,514,000 and $7,705,000)	149,201,000	204,060,000
Inventories	608,374,000	679,374,000
Other receivables, prepaid expenses, etc.	44,915,000	43,104,000
Net assets held for disposal	—	2,487,000
	881,948,000	**1,007,828,000**
Investments and Advances:		
McCrory Credit Corporation, at equity	20,055,000	17,846,000
Long John International Limited, at equity	—	23,225,000
Other investments, etc., substantially at equity	10,294,000	18,582,000
	30,349,000	**59,653,000**
Property, Plant and Equipment	465,672,000	543,474,000
Less accumulated depreciation and amortization	270,205,000	306,199,000
	195,467,000	**237,275,000**
Other Assets:		
Excess of cost of investments over related equities	266,533,000	337,473,000
Deferred charges, mortgages and sundry	49,847,000	47,671,000
Franchises	48,679,000	49,077,000
Deferred future Federal income tax benefits	2,824,000	2,193,000
Net assets held for disposal	3,851,000	9,453,000
	371,734,000	**445,867,000**
	$1,479,498,000	**$1,750,623,000**

See Schedules and Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	*January 31,* 1976	1975
Current Liabilities:		
Short-term debt	$ 85,823,000	$ 237,479,000
Current maturities of long-term and convertible debt	23,457,000	34,096,000
Accounts payable	85,883,000	85,124,000
Accrued expenses and sundry	133,803,000	158,840,000
Accrued Federal and foreign income taxes	38,092,000	31,181,000
	367,058,000	**546,720,000**
Long-term Debt, less current maturities and unamortized discount	**837,446,000**	**952,654,000**
Deferred Foreign Income Taxes	**4,602,000**	**—**
Other Non-Current Liabilities	**91,622,000**	**77,085,000**
Minority Interest in Subsidiaries	**27,724,000**	**26,430,000**
Convertible Debt, less current maturities and unamortized discount	**4,376,000**	**4,367,000**
Stockholders' Equity:		
Preferred stocks (aggregate liquidation preference, (1976) $24,047,000 and (1975) $25,021,000)	6,847,000	6,959,000
Common stock, $1 par value, authorized 50,000,000 shares, issued (1976) 6,986,934 and (1975) 6,935,434 shares, less treasury stock 82,459 shares	6,904,000	6,853,000
Additional paid-in capital	187,761,000	190,133,000
Deficit	(3,023,000)	(7,767,000)
Equity in subsidiary's cost of its treasury stock and subsidiary's carrying value of investment in Rapid-American Corporation common stock (less par value) and warrants	(51,819,000)	(52,811,000)
	146,670,000	**143,367,000**
	$1,479,498,000	**$1,750,623,000**

See Schedules and Notes to Financial Statements.

STATEMENT OF CONSOLIDATED OPERATIONS

	Year Ended January 31, 1976	*1975*
Revenues:		
Net sales	$2,281,991,000	$2,259,377,000
Other—net	14,204,000	9,756,000
	2,296,195,000	2,269,133,000
Costs and Expenses:		
Cost of goods sold	1,680,099,000	1,678,279,000
Selling, advertising, general and administrative expenses	482,313,000	477,422,000
Interest and debt expense	119,190,000	143,416,000
Depreciation and amortization	20,097,000	20,583,000
Provision for store closing programs	13,400,000	—
Provision for loss on lease	3,500,000	—
Provision for disposition of certain operations	2,779,000	10,441,000
Provision (benefit) for income taxes	(6,563,000)	5,197,000
Minority interest	5,097,000	1,719,000
	2,319,912,000	2,337,057,000
Loss From Continuing Operations Before Extraordinary Credit	**(23,717,000)**	**(67,924,000)**
Operations Discontinued or Sold:		
Income from operations	19,586,000	18,008,000
Provision for estimated losses on phase-out of S. Klein operations	(5,309,000)	(19,682,000)
	14,277,000	(1,674,000)
Loss before extraordinary credit	**(9,440,000)**	**(69,598,000)**
Extraordinary credit	14,715,000	—
Net Income (Loss)	**5,275,000**	**(69,598,000)**
Consolidated preferred dividend requirements	1,652,000	1,739,000
Net Income (Loss) Applicable to Common Stockholders	**$ 3,623,000**	**$ (71,337,000)**
PRIMARY INCOME (LOSS) PER SHARE*:		
Continuing operations	$(3.68)	$(10.25)
Operations discontinued or sold	2.07	(.25)
Loss before extraordinary credit	(1.61)	(10.50)
Extraordinary credit	2.14	—
Net income (loss)	$ .53	$(10.50)

* Fully diluted income (loss) per share is anti-dilutive.

See Schedules and Notes to Financial Statements.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

For the Two Years Ended January 31, 1976

	Preferred Stocks	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Securities*
Balance at February 1, 1974	**$8,678,000**	**$6,727,000**	**$198,870,000**	**$64,385,000**	**$(56,324,000)**
Net loss				(69,598,000)	
Dividends:					
On preferred and preference stocks			(1,029,000)		
On common stock ($1.00 per share)			(6,884,000)		
Conversion of preferred stocks ...	(510,000)	126,000	384,000		
Redemption of class C preference stock, series 7	(1,209,000)			(1,838,000)	1,498,000
Other			(30,000)		
Equity in certain transactions of subsidiaries			(1,178,000)	(716,000)	2,015,000
Balance at January 31, 1975	**6,959,000**	**6,853,000**	**190,133,000**	**(7,767,000)**	**(52,811,000)**
Net income				5,275,000	
Dividends:					
On preferred stocks			(945,000)		
On common stock ($.125 per share)			(871,000)		
Conversion of preferred stocks ...	(112,000)	51,000	61,000		
Equity in certain transactions of subsidiaries			(617,000)	(531,000)	992,000
Balance at January 31, 1976	**$6,847,000**	**$6,904,000**	**$187,761,000**	**$(3,023,000)**	**$(51,819,000)**

* Consists of equity in a subsidiary's cost of its treasury stock and subsidiary's carrying value of investment in Rapid-American Corporation common stock (less par value) and warrants.

See Schedules and Notes to Financial Statements.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1976	1975
Funds Provided:		
Operations:		
Loss before extraordinary credit	$ (9,440,000)	$(69,598,000)
Items not currently requiring (providing) funds:		
Depreciation and amortization (discount, excess cost, etc.)	36,765,000	41,693,000
Deferred income taxes	6,632,000	(28,168,000)
Write-off of excess cost and miscellaneous investments	—	6,983,000
Minority interest (less dividends of $849,000 and $2,861,000)	1,057,000	(16,026,000)
Provision for store closing programs	14,634,000	37,477,000
Provision for loss on lease	3,500,000	—
Other—net	3,662,000	(1,289,000)
Funds provided (required) by operations	56,810,000	(28,928,000)
Funds provided by income from extraordinary credit	14,715,000	—
Issuance of long-term debt	144,507,000	33,348,000
Sale of Playtex, net of working capital ($84,732,000)	92,838,000*	—
Sale of investment in Long John	25,026,000	—
Disposals of and reclassification of property, plant and equipment	9,161,000	29,212,000
Decrease (increase) in net assets held for disposal	5,602,000	(9,453,000)
Other—net	576,000	1,966,000
	349,235,000	26,145,000
Funds Applied:		
Reduction in long-term and convertible debt	264,396,000	41,373,000
Additions to property, plant and equipment	21,909,000	36,344,000
Increase in other investments	2,000,000	12,543,000
Decrease in other non-current liabilities and deferred income taxes	4,154,000	7,699,000
Cash dividends	1,816,000	7,913,000
Additional cost of acquisition of minority interest of a subsidiary	1,178,000	—
	295,453,000	105,872,000
Increase (Decrease) in Working Capital	**$ 53,782,000**	**$(79,727,000)**
Increase (Decrease) in Working Capital by Components:		
Cash, including certificates of deposit	$ 655,000	$ 11,481,000
Trade receivables, less allowances	(54,859,000)	(1,010,000)
Inventories	(71,000,000)	(8,285,000)
Other current assets	(676,000)	5,292,000
Short-term debt	151,656,000	(97,878,000)
Current maturities of long-term and convertible debt	10,639,000	(27,825,000)
Accounts payable	(759,000)	40,154,000
Accrued expenses and sundry	25,037,000	(14,490,000)
Accrued Federal and foreign income taxes	(6,911,000)	12,834,000
Increase (Decrease) in Working Capital	**$ 53,782,000**	**$(79,727,000)**

* Consists of excess of cost over equity in net assets of business sold ($64,822,000), property, plant and equipment ($31,270,000), other net items ($458,000) less long-term debt ($3,712,000).

See Schedules and Notes to Financial Statements.

SCHEDULES OF INVENTORIES; PROPERTY, PLANT AND EQUIPMENT; AND PREFERRED STOCKS

	January 31, 1976	1975
Inventories:		
At lower of cost or market:		
Principally first-in, first-out and average cost*:		
Merchandise at stores, plants and warehouses	$ 65,702,000	$116,753,000
Work in process	11,154,000	34,497,000
Raw materials and supplies	36,453,000	77,481,000
Retail method—at stores and warehouses	142,675,000	130,214,000
At identified cost—merchandise in transit, at warehouses and at restaurants	29,789,000	24,325,000
At cost—whiskey, other spirits and wine:		
In bond	271,226,000	250,766,000
Tax paid	51,375,000	45,338,000
	$608,374,000	**$679,374,000**

* Inventories of Playtex at January 31, 1975 were $72,569,000.

	1976	1975
Property, Plant and Equipment—at cost:		
Land	$ 8,496,000	$ 9,995,000
Buildings, store properties, warehouses and leased facilities	94,952,000	118,735,000
Furniture, fixtures and leasehold improvements	287,831,000	300,073,000
Machinery and equipment	74,393,000	114,671,000
	$ 465,672,000	**$543,474,000**

Cumulative Convertible Preferred Stock:

	January 31, 1976		
	Class B Senior ($3) Preferred(a)	$3.15 Preferred(a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding(b)	109,649	5,836	264,534
Aggregate par or stated value	$ 5,961,000	$ 357,000	$ 529,000
Aggregate liquidation preference(c)	$11,513,000	$ 630,000	$11,904,000
Conversion rate per share(d)	3.269 for 1	3.557 for 1	3 for 1
Shares of common stock reserved for conversion of stock outstanding	358,442	20,758	793,602

(a) Without par value.

(b) At January 31, 1975, the number of shares outstanding of $3 preferred, $3.15 preferred and $2.25 junior preferred were 111,072, 5,899 and 280,078, respectively.

(c) The excess ($17,200,000) over par or stated value imposes no restriction upon the payment of cash dividends.

(d) On March 12, 1976, pursuant to the anti-dilution provisions of these issues and as a result of the merger of McCrory with a wholly-owned subsidiary of Rapid-American Corporation, the conversion rates of the $3 preferred, the $3.15 preferred and the $2.25 junior preferred have been adjusted to 3.572, 3.877 and 3.200 shares of common stock, respectively, for each share of such preferred stocks.

See Notes to Financial Statements.

SCHEDULE OF LONG-TERM AND CONVERTIBLE DEBT

	Interest Rate Stated Percent	Interest Rate Effective Percent	January 31, 1976 Principal Amount	1976 Current Maturities and Unamortized Discount	1976 Long-term Portion	1975 Long-term Portion
Long-term Debt:						
Rapid(a):						
Notes and mortgages payable, due 1976 to 1996(b)	2-8.5	2-8.5	$ 222,625,000	$ 5,912,000	$216,713,000	$263,441,000
Subordinated debentures, due 1994	7	9.3-9.9	118,043,000	29,497,000	88,546,000	87,916,000
Sinking fund subordinated debentures, due 1985 and 1988	6-7.5	8-9.4	388,404,000	72,249,000	316,155,000	318,452,000
			729,072,000	107,658,000	621,414,000	669,809,000
McCrory:						
Notes and mortgages payable, due 1976 to 1993(c)	2-9.8	2-9.8	51,717,000	5,521,000	46,196,000	62,918,000
Sinking fund and/or subordinated debentures, due 1976 to 1997(d)	5-10.5	5-12.1	226,419,000	56,583,000	169,836,000	219,927,000
			$1,007,208,000	**$169,762,000**	**$837,446,000**	**$952,654,000**
Convertible Debt(e)— **McCrory**-Subordinated debentures, due 1992 and 1994(f)	6.5	6.5-6.9	**$ 4,512,000**	**$ 136,000**	**$ 4,376,000**	**$ 4,367,000**

Long-term and Convertible Debt Maturities at January 31, 1976 before deduction of unamortized discount:

Year Ending January 31,	
1977	$ 23,457,000
1978	52,099,000
1979	21,198,000
1980	95,356,000
1981	27,646,000
	$219,756,000

Five Years Ending January 31,	
1981	$ 219,756,000
1986	223,802,000
1991	327,342,000
1996	224,739,000
2001	16,081,000
	$1,011,720,000

(a) Includes the parent company and all consolidated subsidiaries, except McCrory and its consolidated subsidiaries.

(b) Long-term portion includes $138,500,000 and $180,000,000 of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1976 and 1975, respectively, with interest at ¾% above 115% of prime rate and ¾% above 110% of prime rate at January 31, 1976 and 1975, respectively. Prime rates at January 31, 1976 and 1975 were 6.75% and 9.0%, respectively.

(c) Includes $40,000,000 and $52,000,000 of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1976 and 1975, respectively, pursuant to a revolving credit agreement, the term of which, by amendment, was extended to June 30, 1977.

(d) January 31, 1976 amounts exclude $57,150,000 principal amount of McCrory debentures owned by Rapid.

(e) On July 1, 1975, Rapid redeemed its 5¾% convertible subordinated debentures, at the principal amount thereof ($9,005,640).

(f) Includes $3,380,000 principal amount of McCrory 6½% convertible subordinated debentures due in 1992, which, on March 12, 1976, pursuant to the terms of the merger are convertible into Rapid common stock at $60.00 per share to February 1977 and at $70.00 per share thereafter, subject to anti-dilution.

See Notes to Financial Statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include all subsidiaries except McCrory Credit Corporation which is carried at equity and certain other subsidiaries whose assets and operations are not significant. Long John International Limited, which was sold in July 1975 (see Note 3) was carried at equity.

The balance sheet accounts of foreign subsidiaries are translated at the rate of exchange in effect at the close of the period except for non-current accounts and inventories which are translated at historical U. S. dollar cost, except that in the year ended January 31, 1975, inventories held for sale in Canada were translated at the year end rate. Revenue and expense accounts are translated at the weighted average of exchange rates in effect during the year, except for depreciation and amortization of property, plant and equipment and other costs which are translated at historical rates that were in effect when the respective assets were acquired. Realized and unrealized foreign exchange adjustments, principally of Schenley, which were insignificant during the two years ended January 31, 1976, were included in income (loss).

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Inventories

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold for the years ended January 31, 1976 and 1975 include approximately $352,329,000 and $351,446,000, respectively, of Federal excise taxes, import duties and state liquor taxes.

Property, Plant and Equipment

Depreciation and amortization is generally provided for on the straight-line method over the estimated service lives of the properties.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $115,861,000 and $153,141,000 at January 31, 1976 and 1975, respectively, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs are not amortized so long as there is no diminution in value of the related investments. Franchises, which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $150,672,000 (after accumulated amortization of $12,003,000) at January 31, 1976 and $184,332,000 (after accumulated amortization of $9,714,000) at January 31, 1975, and the portion of franchises amounting to $14,625,000 (after accumulated amortization of $1,321,000) at January 31, 1976 and $15,023,000 (after accumulated amortization of $923,000) at January 31, 1975, acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on the straight-line method over forty years.

Excess of Net Assets Acquired Over Related Cost

The excess, amounting to $13,134,000 at January 31, 1976 (after accumulated amortization and other adjustments of $11,639,000) and $17,169,000 at January 31, 1975 (after accumulated amortization and other adjustments of $7,604,000), of the net assets acquired in the acquisition of J. J. Newberry Co., in 1972, over the aggregate cost was attributed to property accounts, is included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property.

Income Taxes

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries

may be required to recognize income taxes upon distribution amounted to approximately $64,500,000 at January 31, 1976. No provision has been made for taxes that would be payable upon distribution, because these earnings have been indefinitely reinvested.

Research and Development

Research and development costs relating to continuing operations for the years ended January 31, 1976 and 1975 in the amount of $438,000 and $465,000, respectively, were expensed as incurred.

2. McCRORY CREDIT CORPORATION

Rapid and certain of its affiliates sell certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies repurchase any accounts in default, as defined. The 10% equity of Rapid in sold accounts receivable (the uncollected accounts receivable balances amounted to $49,927,000 and $96,015,000 at January 31, 1976 and 1975, respectively) is included in trade receivables in the consolidated balance sheet. Collections in January 1976 and 1975 (payable to McCrory Credit in February) from sold customers' accounts (net of 10% equity) amounting to $11,401,000 and $23,116,000, respectively, have been deducted from trade receivables in the consolidated balance sheet. The condensed consolidated balance sheet of McCrory Credit at January 31, 1976, is summarized below:

Accounts receivable, less unearned discount	$46,626,000	
Cash	89,000	
Other liabilities	(1,099,000)	$45,616,000
Notes payable to banks		25,561,000
Rapid's carrying value (including $13,900,000 of subordinated notes payable to Rapid and its subsidiaries)		$20,055,000

Net income of McCrory Credit for the years ended January 31, 1976 and 1975 was $385,000 and $188,000, respectively. Rapid's equity therein is included in consolidated net income (loss).

At January 31, 1976, notes payable to banks of McCrory Credit are scheduled to mature on January 31, 1977; at January 31, 1975 such notes were payable on demand. As of January 31, 1976 and 1975 the average interest rates were 9.1% and 10.7%, respectively. The maximum amounts of notes payable to banks outstanding at any month end were $88,350,000 and $88,700,000, respectively, during the years ended January 31, 1976 and 1975. The average amounts of notes payable to banks outstanding were approximately $64,087,000 and $82,327,000, respectively, during the years ended January 31, 1976 and 1975 and the weighted average interest rates were approximately 9.3% and 10.9%, respectively.

McCrory Credit, under informal agreements until June 25, 1975 was expected to maintain cash balances of up to 20% of its lines of credit. These balances were subject to withdrawal at any time. The average monthly cash book balances with various banks having a credit relationship with McCrory Credit were approximately $11,316,000 and $13,761,000, respectively, during the years ended January 31, 1976 and 1975.

McCrory Credit, prior to June 1975, obtained substantially all of its operating funds from unsecured bank borrowings at the prime rate, pursuant to short-term lines of credit. During the year ended January 31, 1975, available short-term lines of credit to McCrory Credit were significantly reduced and certain banks claimed that McCrory Credit was in default under their notes. McCrory Credit, on June 25, 1975 entered into a credit agreement with its bank lenders pursuant to which it: (i) reduced its outstanding borrowings with such banks from $88,350,000 to $78,350,000 through the application of funds then on deposit with certain banks as compensating balances; (ii) issued new notes which were scheduled to mature on January 31, 1976 (extended to January 31, 1977); and (iii) granted the banks a security interest in the receivables it purchases. Interest under the credit agreement was at the higher of ¼ of 1% over 120% of the prime rate of The Chase Manhattan Bank (National Association) or ¼ of 1% over 130.8% of the commercial paper rate (as defined). To comply with the terms of the credit agreement, which contains certain covenants relating to McCrory Credit's financial position and restricts McCrory Credit from engaging in various transactions, including borrowings, investments, guarantees, business combinations, the payment of dividends, the payment of interest on the subordinated indebtedness and the sale of assets, McCrory Credit borrowed an additional $2,000,000 in 1975 from McCrory through the issuance of its subordinated promissory note. McCrory Credit has taken steps to significantly curtail its operations and the subsidiaries and divisions of McCrory and Rapid that utilize McCrory Credit have sought to make other

arrangements for the financing of their receivables. Such other arrangements may involve greater costs to McCrory and Rapid and their respective divisions and subsidiaries. As such alternative financing arrangements are made, the proceeds from the sale of the pledged receivables are required to be used to reduce the borrowings under the credit agreement.

On September 5, 1975 Rapid-American Menswear, Inc. purchased its accounts receivable previously sold to McCrory Credit for approximately $6,250,000. During the period from September 12, 1975 through October 8, 1975, Lerner repurchased its accounts receivable from McCrory Credit for approximately $31,800,000. On December 15, 1975 Rapid-American Menswear, Inc. purchased additional accounts receivable previously sold to McCrory Credit for approximately $2,750,000. Pursuant to its credit agreement, McCrory Credit used the cash received from Lerner and Rapid Menswear plus cash on hand to reduce its bank loans from $78,350,000 to approximately $33,150,000.

As of January 31, 1976, the outstanding loans under the credit agreement had been reduced to $25,561,000; effective that date, McCrory Credit entered into an agreement extending the maturity date of the outstanding loans to January 31, 1977 and amending certain provisions of its credit agreement. Interest under the credit agreement is at the higher of (i) 1% over 120% of the prime rate of The Chase Manhattan Bank (National Association) or 1% over 130.8% of the commercial paper rate (as defined), until July 31, 1976; (ii) 1¾% over 120% of such prime rate or 1¾% over 130.8% of such commercial paper rate, from August 1, 1976 until October 31, 1976; and (iii) 2% over 120% of such prime rate or 2% over 130.8% of such commercial paper rate from November 1, 1976 until January 31, 1977. McCrory is currently discussing the financing of its OTASCO receivables with a group of banks. If such financing is consummated, the receivables will be repurchased from McCrory Credit and the proceeds will be used to repay the McCrory Credit borrowings under the credit agreement.

3. OPERATIONS DISCONTINUED OR SOLD

S. Klein Department Stores, Inc.—In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established during the year ended January 31, 1975, based upon various assumptions which management then believed were realistic. In December 1975 management of McCrory decided to record an additional provision of $16,400,000, less related Federal income tax benefit of $7,900,000, based upon losses incurred through October 31, 1975 and revised estimates of additional future losses to be incurred (including the transaction with Korvettes, Inc., a wholly-owned subsidiary of Arlen Realty & Development Corp., described below). Such estimated losses and additions to and charges against the reserve consist of the following:

	Year Ended January 31, 1975	Year Ended January 31, 1976	Charges Against	Balance, January 31, 1976*
	(In Thousands)			
Write-down of assets to net realizable value	$24,126	$ 1,755	$25,881	—
Present value of future lease commitments and real estate taxes, net of estimated recoveries	24,110	6,320	10,289	$20,141
Other related costs	5,064	1,325	3,516	2,873
Estimated operating losses during phase-out period	5,000	7,000	11,433	567
	58,300	16,400	$51,119	$23,581
Less estimated Federal income tax benefit	26,800	7,900		
Estimated losses	31,500	8,500		
Less minority interest	11,818	3,191		
Rapid's equity therein	$19,682	$ 5,309		

* The January 31, 1976 balance consists of $7,307,000 (current) and $16,274,000 (long-term).

The program of phasing out the S. Klein stores resulted in all stores being closed by the end of August 1975. Management of McCrory has completed the disposition of nine of the stores, which includes the disposition of five stores to Korvettes, Inc., and has re-opened two stores as Britts department stores. Additional adjustments may be required based upon the results of efforts to make further dispositions. The current present value of remaining future lease commitments and real estate taxes relating to the stores which have not yet been disposed of, assuming no additional recoveries, is approximately $26,000,000 (before giving effect to income taxes) in excess of that which has been provided for. At January 31, 1976, it is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

The results of operations of S. Klein for the year ended January 31, 1975 and the provisions for estimated losses in the two years ended January 31, 1976 for its phase-out have been segregated from continuing operations in the statement of consolidated operations. The results shown below present the operations of S. Klein, before allocation of McCrory's corporate financing and headquarters' administrative expenses and after giving effect to related income tax benefits, for the year ended January 31, 1975 were as follows:

	(In Thousands)
Net sales	$154,046
Costs and expenses	169,764
Loss before related income tax benefits	(15,718)
Income tax benefits	7,545
Loss	(8,173)
Minority interest	3,066
Rapid's equity therein	$ (5,107)

As of October 1, 1975 McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes. As part of the transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $5,256,000 (including interest) in notes, payable in monthly instalments over 18 years. Korvettes has assumed McCrory's obligations under such leases, including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such leases range from approximately $2,000,000 in the year ended January 31, 1976 to approximately $800,000 in the year ending January 31, 2000, and aggregate approximately $33,700,000 for the period commencing October 1, 1975 and ending upon expiration of the initial terms of such leases. Real estate taxes and other charges payable under such leases aggregated approximately $1,200,000 in the year ended January 31, 1976. In addition, McCrory has renewed its lease for one S. Klein store location, which expires in 1984, for a 25 year term, and has sublet to Korvettes, for a 26 year term commencing in 1983, the main building of such premises. This store is currently operating as a Britts department store. McCrory has not been released by its landlords from any of its obligations under the foregoing leases. As part of the transaction, McCrory has subleased, commencing January 1, 1976, two stores (including certain trade fixtures located therein) formerly operated by Arlen or its affiliates (the "Arlen Stores"). McCrory is liable under these subleases, neither of which will expire after 1984, for payments of not more than an aggregate of approximately $9,700,000, subject to possible increases if subrentals due to McCrory from further subleasing of the Arlen Stores exceed 70% of the annual aggregate subrental to be paid by McCrory. McCrory does not intend to occupy or operate either of the Arlen Stores, but is seeking to further sublet them. McCrory has issued its non-interest bearing promissory notes to Arlen and Korvettes in the aggregate amount of approximately $5,300,000, payable through October 1, 1976, for certain expenses, and will pay certain other expenses, relating to the transaction.

As a result of McCrory management's decision to phase out the operations of S. Klein, the consolidated balance sheet at January 31, 1975 includes the assets and liabilities related to S. Klein at their estimated realizable values classified as follows:

	January 31, 1975		
	Carrying Value	Estimated Loss On Disposal	Estimated Realizable Value
	(In Thousands)		
Net Current Assets Held for Disposal:			
Merchandise inventories	$17,032	$ 5,290	$11,742
Other current assets—net	2,151	900	1,251
Accounts payable	(10,506)	—	(10,506)
Total	$ 8,677	$ 6,190	$ 2,487
Net Long-Term Assets Held for Disposal:			
Property and equipment—net	$27,469	$17,836	$ 9,633
Other long-term liabilities—net	(80)	100	(180)
Total	$27,389	$17,936	$ 9,453

At January 31, 1976 the estimated realizable value of the net assets held for disposal was $3,851,000 (long-term).

International Playtex—On November 7, 1975, effective as of October 31, 1975, the Playtex operations (domestic division and foreign subsidiaries) were sold to Esmark, Inc. for $210,000,000, in cash, notes and preferred stock of Esmark. Accordingly, the results of operations of Playtex for the years ended January 31, 1976 and 1975 have been segregated from continuing operations in the statement of consolidated operations as follows:

	Year Ended January 31,	
	1976*	1975
	(In Thousands)	
Net sales	$250,256	$300,625
Costs and expenses	218,102	260,614
Income before income taxes	32,154	40,011
Provision for income taxes	12,568	16,896
Net income	$ 19,586	$ 23,115

* For the nine months ended October 31, 1975 (date of sale).

The sale of Playtex did not result in a reported gain or loss for financial statement purposes as the excess of the proceeds of sale over (i) the estimated expenses of sale, (ii) the estimated Federal income tax liability and (iii) the equity of Playtex delivered to Esmark, has been applied as a reduction of excess cost (see Note 5). The consolidated balance sheet at January 31, 1975 has not been restated and includes the assets and liabilities of Playtex as follows:

	(In Thousands)
Current assets	$130,016
Property, plant and equipment—net	31,835
Investments and other assets	2,909
	164,760
Current liabilities	53,821
Long-term debt, less current maturities	4,313
Deferred income taxes and other non-current liabilities	1,879
	60,013
Net assets, net of intercompany receivables from Rapid	$104,747

Long John International Limited—In July 1975, Schenley sold its 75% interest in Long John for approximately $31,200,000 in cash. Such sale resulted in a gain of approximately $5,374,000, before related income taxes of approximately $6,100,000.

4. INVESTMENTS IN OTHER SUBSIDIARIES

Consolidated Subsidiaries

McCrory Corporation—Rapid owned at January 31, 1976 and 1975, 3,151,339 shares (62.5%) of McCrory common stock outstanding. On March 12, 1976, a wholly-owned subsidiary of Rapid was merged into McCrory. In connection with the merger, which was accounted for as a purchase transaction in which Rapid was the acquiring corporation, (i) 947,743 shares of Rapid common stock were exchanged for all of the outstanding shares of McCrory common stock (other than shares held by Rapid) and (ii) all other McCrory securities remained outstanding, with certain McCrory securities becoming convertible or exercisable into Rapid common stock, pursuant to the terms of the merger.

B.V.D. Knitwear, Inc.—Operating losses, before Federal income tax benefit, of B.V.D. Knitwear, Inc., a subsidiary, were $9,217,000 and $8,066,000 for the years ended January 31, 1976 and 1975, respectively. Included in such operating losses are intercompany interest charges of $1,036,000 and $2,983,000, respectively. At January 31, 1976 and 1975, Rapid's equity in Knitwear, inclusive of net intercompany receivables, approximated $7,200,000 and $24,300,000, respectively. Knitwear also has commitments under various of its noncancelable lease arrangements aggregating approximately $11,950,000 at January 31, 1976.

Unconsolidated Subsidiary

ILC Industries, Inc.—At December 31, 1971 Glen Alden owned 525,000 shares (70%) of ILC common stock. In October 1972, such investment in ILC was written down to estimated net realizable value in anticipation of its sale and accordingly, the accounts of ILC have been excluded from Rapid's consolidated financial statements from November 1972. In October 1975, Rapid began to consider the possible acquisition of the minority interest in ILC; however, Rapid has no definite plans or arrangements to effect any such transaction. Rapid has agreed not to dispose of any of its capital stock of ILC without the prior written

consent (which may not be unreasonably withheld) of ILC's bank lenders. ILC incurred net losses for the years ended December 31, 1975 and 1974 of approximately $650,000 and $2,300,000, respectively. From time to time, for the past several years, ILC has borrowed funds from Rapid on an open account basis. Under ILC's bank agreement, repayment of such advances is subordinated to repayment of ILC's bank debt. Rapid's investment in ILC, including loans and advances, aggregated approximately $5,500,000 and $5,950,000, at January 31, 1976 and 1975, respectively. ILC is presently negotiating the sale of its Steinthal subsidiary. The proceeds from such sale are to be applied primarily to reduce ILC bank debt.

5. EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1976	January 31, 1975
	(In Thousands)	
Glen Alden, Schenley and Playtex(a)	$169,903	$238,729
Lerner	62,501	62,501
McCrory(b)	29,034	29,034
Rapid-American Menswear(c)	14,592	14,592
Other	2,506	2,331
Total(d)	278,536	347,187
Less accumulated amortization(a)	12,003	9,714
Net	$266,533	$337,473

(a) Playtex was sold during the year ended January 31, 1976. As a result of such sale, excess cost was reduced by $64,822,000 (net of accumulated amortization of $2,374,000).

(b) Incurred a loss from operations in the year ended January 31, 1975, but was profitable in prior years and in the year ended January 31, 1976.

(c) Its divisions on a combined basis incurred losses in the two years ended January 31, 1976, but were profitable in prior years.

(d) Includes $162,675,000 and $194,046,000, respectively, being amortized over periods not exceeding forty years (see Note 1).

6. SHORT-TERM DEBT

Short-term debt consisted of the following:

	January 31, 1976	January 31, 1975
	(In Thousands)	
Notes payable to banks	$81,000	$212,368
Commercial paper	—	25,111
Other	4,823	—
Total	$85,823	$237,479

The notes payable and commercial paper are generally payable ninety days after date of issuance, and as of January 31, 1976 and 1975 the average interest rates were 7.2% and 10.7%, respectively. The maximum amounts of short-term debt outstanding at any month end during the years ended January 31, 1976 and 1975 were approximately $310,000,000 and $370,000,000, respectively. The average amounts of short-term debt outstanding during these years were approximately $245,000,000 and $300,000,000, respectively, and the weighted average interest rates on such debt were approximately 9.3% and 11.6%, respectively. As of January 31, 1976 and 1975 unused lines of credit available for short-term borrowings aggregated approximately $176,000,000 and $125,000,000, respectively.

Rapid (until October 31, 1975) and its subsidiaries, under informal compensating balance arrangements, are expected to maintain cash balances of up to 15% of the unused portion of the lines of credit and of up to 10% of the loans outstanding under these lines. Such requirements were satisfied by maintenance of the required balances or additionally, in the year ended January 31, 1975, by the payment of additional interest.

The average weekly cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $67,000,000 and $60,000,000, respectively, during the years ended January 31, 1976 and 1975. The aforementioned balances were subject to withdrawal at any time.

7. LONG-TERM AND CONVERTIBLE DEBT

In connection with certain long-term bank borrowings, under informal agreements it was expected that Rapid would maintain cash balances ranging up to 20% of the outstanding loans during 1974 and ranging up to 10% from January 31, 1975 to November 7, 1975. These balances

were subject to withdrawal at any time. Rapid currently does not have compensating balance requirements.

On November 7, 1975 (reflected as of October 31, 1975), Rapid entered into a term loan agreement dated as of October 31, 1975 with eleven banks and the Federal Deposit Insurance Corporation. Pursuant to the Loan Agreement, Rapid applied $10,000,000 of the cash proceeds from the sale of Playtex and all of the Esmark securities received (see Note 3) in satisfaction of $150,000,000 of Rapid's prior indebtedness to the Banks. The balance of Rapid's prior indebtedness to the Banks, including $50,000,000 which had been borrowed under a term loan agreement dated as of November 1, 1972, and $93,500,000 of short-term borrowings was then restructured into a new term loan pursuant to the Loan Agreement and the prior term loan agreement was terminated. The aggregate borrowing under the Loan Agreement ($143,500,000) matures over seven years, with annual instalments commencing on December 31, 1976 of $5,000,000; $7,500,000; $12,500,000; $15,000,000; $20,000,000; $28,000,000; and $55,500,000. The notes bear interest at an annual rate equal to ¾% per annum above 115% of the prime rate. Rapid agreed that it will pay to the lenders the difference between the 6½% dividend rate on the Esmark preferred stock and the prime rate, until November 1, 1983.

To secure its obligations to the Banks under the Loan Agreement and certain related agreements, Rapid escrowed $40,000,000 of the cash proceeds from the sale of Playtex and, pursuant to a pledge agreement entered into on the same date as the Loan Agreement, Rapid has granted to the Banks a security interest in all the shares of common stock of McCrory owned by Rapid, including the shares acquired upon the merger with McCrory on March 12, 1976, and any subordinated debentures of McCrory purchased by Rapid, using all or any part of the escrowed $40,000,000. From November 7, 1975 through January 31, 1976, Rapid purchased approximately $57,150,000 principal amount of McCrory subordinated debentures utilizing approximately $29,150,000 of such escrowed funds. The difference of $11,550,000 between McCrory's carrying value ($40,700,000) of such debentures and the aggregate purchase price ($29,150,000) was included in "Other Non-Current Liabilities" in the consolidated balance sheet. At January 31, 1976, pending the subsequent merger with McCrory on March 12, 1976, it was expected that such difference will be considered in determining the purchase value assigned to the net assets of McCrory acquired upon the merger. During the period from February 1, 1976 through April 14, 1976 Rapid purchased an additional $10,087,000 principal amount of McCrory subordinated debentures utilizing approximately $6,050,000 of said escrowed funds. Any amount representing part of said escrowed $40,000,000 which has not been used by June 30, 1976 for the purchase of McCrory subordinated debentures will be used to prepay the Rapid notes. In connection with its merger with Rapid on March 12, 1976, McCrory has issued subordinated notes in an amount equal to the cost of the purchased debentures, and received all the debentures purchased by Rapid. These notes mature December 31, 1982, bear interest in an amount equal to the interest which would have been accrued and/or payable with respect to the McCrory subordinated debentures delivered in exchange for the McCrory notes, are subordinated to McCrory's indebtedness to suppliers incurred in the ordinary course of business, and all guarantees, endorsements and other contingent obligations in respect of such indebtedness to suppliers and are pledged under Rapid's Loan Agreement.

The Loan Agreement contains various restrictions on Rapid and certain of its subsidiaries, including, without limitation, restrictions on the payment of cash dividends, indebtedness, liens, guarantees, the disposition of property, investments, the right to engage in business combinations and the maintenance of minimum levels of (i) consolidated net worth (as defined) and (ii) an excess of consolidated current assets (as defined) over consolidated current liabilities (as defined). At January 31, 1976, Rapid was not permitted to pay a cash dividend on its common stock. Since the Loan Agreement was entered into, it has been amended, and the lenders on several occasions, have waived compliance with certain of its covenants.

A bank loan agreement (terminated as of October 31, 1975) contained various covenants relating to Rapid's financial position and also contained restrictions on actions that could be taken by Rapid including, but not limited to, the incurrence of indebtedness, guarantees, lease commitments, the disposition of property, business combinations, capital expenditures, investments and the payment of dividends. The loan agreement was amended twice and the banks, on several occasions, waived compliance with certain covenants, including working capital requirements

and gave waivers permitting Rapid to pay dividends on January 31, 1975 and in the succeeding fiscal year on its outstanding classes of preferred stock at the rates specified in Rapid's certificate of incorporation and to pay dividends on January 31, 1975 and on April 30, 1975 on its common stock, at the rate of 25 cents and 12½ cents per share, respectively. Subsequent to April 30, 1975 the regular quarterly cash dividend was declared and paid on the $3 preferred stock, the $3.15 preferred stock and the $2.25 junior preferred stock and no cash dividend was declared on the common stock.

On November 26, 1974 McCrory entered into a Revolving Credit Agreement, as amended as of December 1, 1975, with nine banks and the Federal Deposit Insurance Corporation aggregating $110,250,000. At January 31, 1976, there were $40,000,000 of notes outstanding (included in long-term debt) and $70,250,000 of unused lines of credit available. The notes payable under the Revolving Credit Agreement mature on the last day of the calendar quarter in which they are issued and $94,500,000 are renewable by McCrory on a quarterly basis until June 30, 1977. It is McCrory's present intention to renew $40,000,000 of such notes until June 30, 1977, as permitted by the Revolving Credit Agreement. At January 31, 1975, there were $65,000,000 of notes outstanding ($13,000,000 included in short-term debt).

Interest (8.43% at January 31, 1976 and 11.45% at January 31, 1975) on loans up to an aggregate of $65,000,000 is at the rate of the higher of 1% above 110% of the prime rate of Chemical Bank or 1½% above 110% of the commercial paper rate (as defined) on an annual basis; on loans in excess of $65,000,000, the interest rate is the higher of 110% of the prime rate or ½ of 1% above 110% of the commercial paper rate (as defined) on an annual basis. The agreement also provides for a commitment fee of ½ of 1% per annum on the average unused portion of the committed lines.

McCrory has granted the banks and the FDIC security interests in (i) all of the outstanding capital stock of Lerner, (ii) a demand note of Newberry in the principal amount of $41,500,000 payable to McCrory and (iii) certain accounts receivable of McCrory payable by Newberry. McCrory's obligations under the Revolving Credit Agreement are guaranteed by substantially all of its subsidiaries, other than Newberry and McCrory Credit and their subsidiaries.

The maximum amounts of McCrory notes payable to banks and the FDIC outstanding at any month-end during the years ended January 31, 1976 and 1975 were $110,250,000 and $121,500,000, respectively. The average amount of notes payable to banks and the FDIC outstanding during the years ended January 31, 1976 and 1975, were approximately $89,000,000 and $102,000,000, respectively. The interest rate applicable to such loans ranged from 7.7% to 12.6% and the weighted average interest rates on such debt for the years ended January 31, 1976 and 1975 were approximately 9.5% and 12.4%, respectively.

In connection with the Revolving Credit Agreement, informal arrangements require maintenance of compensating balances averaging 10% of the total line of credit. The average daily bank balance on deposit with the banks under the Revolving Credit Agreement during the year ended January 31, 1976 and the period November 26, 1974 to January 31, 1975 was approximately $22,000,000. There are no legal restrictions on the withdrawal of such funds.

McCrory is required to maintain a consolidated tangible net worth (as defined) plus subordinated indebtedness (as defined) of not less than $185,000,000 until January 31, 1976 and $190,000,000 (subject to adjustments) at all other times, to maintain consolidated net current assets (as defined) of not less than $110,000,000 until January 31, 1976, not less than $130,000,000 on January 31, 1976 and 1977 and not less than $115,000,000 at all other times and to maintain a ratio of consolidated current assets (as defined) to consolidated current liabilities (as defined) of not less than 1.90 to 1 and 2.00 to 1 on January 31, 1976 and 1977, respectively, and of not less than 1.40 to 1 at all other times. McCrory is required to reduce to $45,000,000, its aggregate borrowings under the Revolving Credit Agreement for a 30-day period during the last two months in the year ending January 31, 1977. Since the Revolving Credit Agreement was entered into, it has been amended, and the lenders, on several occasions, have waived compliance with certain of its covenants. McCrory believes that on or before June 30, 1976, it will be necessary to renegotiate the Revolving Credit Agreement and has begun preliminary discussions with the banks and the FDIC.

8. CAPITAL STOCK AND WARRANTS

Warrants entitling their holders to purchase shares of Rapid's common stock were outstanding at January 31, 1976 and 1975 as follows:

Expiration Date	Exercise Price	Number of Warrants
May 1, 1976	$ 8.50	100,000
May 15, 1994*	35.00	3,965,883
		4,065,883

* Redeemable at $20.

During the year ended January 31, 1975, Rapid issued 12,550 redeemable warrants upon exercise of options. At January 31, 1976 and 1975, McCrory owned 155,368 redeemable warrants (excluded above) and 77,684 shares of Rapid's common stock, which have been included with treasury stock in the consolidated financial statements.

On May 30, 1973, Rapid's stockholders approved the grant of two non-qualified stock options for the purchase of an aggregate of 300,000 shares of common stock at a purchase price of $25.00 per share to two officers.

On May 30, 1973, Rapid's stockholders approved a qualified stock option plan which provides for the grant of options to purchase 500,000 shares of common stock at not less than 100% of fair market value on the dates of grant. In June 1974 (the initial grant), options to purchase 221,900 shares of common stock at $14.00 per share were granted. During the years ended January 31, 1976 and 1975 no options were exercised and options for 117,300 shares and 3,100 shares, respectively, were cancelled and at January 31, 1976, options to purchase 101,500 shares were outstanding (50,750 exercisable). Rapid does not intend to grant additional options under the 1973 plan.

The former Glen Alden 1965 option plan, which was assumed by Rapid upon the effectiveness of the Rapid-Glen Alden merger in November 1972, authorized the grant of options to purchase common stock and warrants. The 1965 plan expired on June 30, 1974. Option data were as follows:

	Number of Shares	Number of Redeemable Warrants
Outstanding,		
February 1, 1974	157,700	450,587
Exercised	(4,392)	(12,550)
Cancelled	(24,018)	(68,625)
Outstanding,		
January 31, 1975	129,290	369,412
Cancelled	(78,816)	(225,162)
Outstanding and exercisable,		
January 31, 1976	50,474	144,250

Prices of outstanding options range from $5.125 to $11.625 for the year ended January 31, 1975 and $7.875 to $11.625 for the year ended January 31, 1976.

During the year ended January 31, 1976, 1,423 shares of $3 preferred stock, 63 shares of $3.15 preferred stock and 15,544 shares of $2.25 junior preferred stock were converted into 51,500 shares of Rapid common stock. During the year ended January 31, 1975, 8,013 shares of $3 preferred stock, 143 shares of $3.15 preferred stock and 33,003 shares of $2.25 junior preferred stock were converted into 125,679 shares of Rapid common stock.

At January 31, 1976 there were 138,550 shares of McCrory common stock reserved for conversion of McCrory preferred and preference stocks and debentures, 97,075 shares reserved for issuance under stock option and incentive plans and 669,726 shares reserved for exercise of common stock purchase warrants outstanding.

9. PROVISION FOR DISPOSITION OF CERTAIN OPERATIONS

In April 1975, management of Rapid decided to dispose of the consumer products operations of Anvil Brand, Incorporated, Maria Mills, Inc., Friedman Marks, Inc., Meadow Sportswear and Almar Manufacturing Corporation. Accordingly, included in the statement of consolidated operations for the year ended January 31, 1975 is a provision of $10,441,000 (before a related deferred income tax benefit of $4,115,000) for the estimated losses expected to be incurred upon the disposition of such operations. In the year ended January 31, 1976 management of Rapid decided to (i) dispose of Halston Menswear Inc. and (ii) record an additional provision of $2,779,000 (before a related income tax benefit of $1,334,000), based upon losses incurred and revised estimates of additional future losses to be incurred relating to the operations disposed of in both years. Through January 31, 1976 approximately $11,663,000 of such losses were charged against the established reserve ($13,220,000). The provisions for such estimated losses and for the losses from operations of such companies represent a disposal of part of a line of a business (not a discontinued operation) and accordingly, they have been included in the statement of consolidated operations in loss from continuing operations. Net sales of such operations were

\$3,287,000 and \$42,486,000, respectively and net losses from operations were \$526,000 and \$2,038,000, respectively, for the years ended January 31, 1976 and 1975. Net assets of such operations were \$818,000 and \$22,266,000, respectively, at January 31, 1976 and 1975.

10. PROVISION FOR LOSS ON LEASE

In the year ended January 31, 1976, management of Rapid decided to consolidate its executive offices at premises currently under lease and occupied by certain subsidiaries. Accordingly, it determined not to move its executive offices to other premises, leased for 25 years at an annual rental of approximately \$1,500,000. In October 1975, Rapid recorded a provision of \$3,500,000 (before a related deferred Federal income tax benefit of \$1,680,000) for the estimated loss on such lease.

11. PROVISION FOR STORE CLOSING PROGRAMS

In February 1976 management of McCrory decided to terminate certain Variety Store and Britts department store operations in the mid-western region of the United States and, accordingly, as of January 31, 1976, recorded a provision of \$13,400,000 (before related Federal income tax benefit of approximately \$6,400,000 and minority interest of approximately \$2,600,000) principally for the estimated losses to be incurred in connection with the termination of such operations. Such estimated losses consist of the following:

	(In Thousands)
Write-down of assets to net realizable value	\$ 2,350
Present value of future lease commitments and real estate taxes, net of estimated recoveries	10,200
Other related costs	850
Estimated losses	\$13,400

In addition, the estimated losses (\$2,741,000) which relate to the Newberry fixed assets attributable principally to certain Variety Store and Britts department store operations to be terminated have been excluded from the related provision as of January 31, 1976 and have been applied (net of related Federal income tax effect of \$1,316,000) as a reduction of the "excess of net assets acquired over related cost"; and losses incurred of \$346,000 (net of related Federal income tax effect) in the disposition of certain other Newberry fixed assets, during the year ended January 31, 1976, have also been applied as a reduction of such excess (see Note 1).

12. PROVISION (BENEFIT) FOR INCOME TAXES

The financial statements for the year ended January 31, 1975 have been restated to eliminate the future tax benefits attributable primarily to the net operating loss carry-forward recognized in such year. Future tax benefits attributable to the net operating loss and investment credit carry-forwards were originally recognized in the year ended January 31, 1975 because Rapid and its independent auditors concluded that such treatment was in conformity with Opinion No. 11 of the Accounting Principles Board which provides for recognition in the period of loss when realization of the tax benefits is assured beyond any reasonable doubt at the time the loss carry-forward arises. However, subsequent to the issuance of the fiscal 1974 financial statements, the accounting staff of the Securities and Exchange Commission on December 24, 1975 made known its position that certain of the requirements for the recognition of these benefits in such year were not met and that the financial statements for fiscal 1974 should be restated. Rapid and its independent auditors continue to believe that recognition of the tax benefit of the net operating loss and investment credit carry-forwards in the financial statements for fiscal 1974 was in conformity with generally accepted accounting principles. However, Rapid elected to adopt the alternative accounting treatment required to conform with the SEC staff's position.

The resulting restatement increased Rapid's reported net loss for the year ended January 31, 1975 (and decreased its stockholders' equity at that date) by \$26,133,000 and benefitted Rapid's net income after extraordinary credit (and stockholders' equity) in the current year by substantially the same amount. The restatement also gave rise to the extraordinary credit of \$14,715,000 in the current year.

As a result of the restatement, certain financial data at and for the year ended January 31, 1975 have been restated as follows:

	As Originally Reported*	As Restated
	(In thousands, except per share amounts)	
Other assets	$ 472,000	$ 445,867
Total assets	$1,776,756	$1,750,623
Stockholders' equity	$ 169,500	$ 143,367
Loss from continuing operations	$ (41,791)	$ (67,924)
Net loss	$ (43,465)	$ (69,598)
Net loss applicable to common stockholders	$ (45,204)	$ (71,337)
Primary loss per share of common stock:		
Continuing operations	$(6.41)	$(10.25)
Net loss	$(6.65)	$(10.50)

* After certain reclassifications.

Provision (benefit) for income taxes related to continuing operations for the years ended January 31, 1976 and 1975 are comprised of Federal income taxes (benefit) of $(12,708,000) and $(3,688,000) (including deferred taxes of $(1,496,000) and $5,100,000), foreign income taxes of $1,963,000 and $3,401,000 (including deferred taxes of $192,000 and $465,000) and state income taxes of $4,182,000 and $5,484,000, respectively.

At January 31, 1975 Rapid had an estimated net operating loss carry-forward of approximately $53,500,000. As a result of the sale of the assets and business of Playtex and the sale of the investment in Long John, Rapid expects to report taxable income from these transactions of approximately $160,000,000 in its tax return for the year ended January 31, 1976. The taxes which would otherwise be payable (approximately $34,500,000) on the ordinary taxable income (approximately $72,000,000), generated from such sales have been recorded as a tax benefit in continuing operations for the year ended January 31, 1976 to the extent of the operating losses incurred, with the remainder recorded as an extraordinary credit arising principally from the utilization of the prior year operating loss carry-forward.

At January 31, 1976, McCrory had an estimated net operating loss carry-forward of approximately $10,000,000 which will expire in the year ending January 31, 1980. Estimated operating losses of $74,700,000 are expected to result from the phase-out of the S. Klein operations. The principal portion of these estimated losses has been or is expected to be reported by McCrory for Federal income tax purposes during the three years ending January 31, 1978 and, accordingly, will be available to reduce taxable income, for the most part, through January 31, 1983, with additional amounts being reported in years subsequent to January 31, 1978.

Through January 31, 1976, McCrory has recorded $15,124,000 (in addition to reversal of previously recorded net deferred tax credits of $15,000,000, which was the estimated amount of such credits expected to reverse over a five-year period) as estimated future deferred Federal income tax benefits for financial statement purposes resulting principally from the operating losses and the provision for losses on the phase-out of S. Klein (see Note 3).

Realization of the aforementioned tax benefits, in the opinion of McCrory's management, is assured beyond any reasonable doubt because of McCrory's ability to generate sufficient future taxable income through operations.

Deferred income taxes (benefit) relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations for the years ended January 31, 1976 and 1975 and the tax effect of each were as follows:

	Year Ended January 31,	
	1976	1975
Foreign tax credits	$ —	$5,235,000
Investment tax credits	(484,000)	—
Provision for disposition of certain operations	2,733,000	(4,115,000)
Excess of tax over book depreciation	757,000	1,171,000
Amortization of debt discount	2,519,000	2,373,000
Deferred systems development costs	(403,000)	(534,000)
Reduction in reserve for store closing programs	704,000	1,617,000
Instalment sales	(4,637,000)	—
Provision for loss on lease	(1,680,000)	—
Other	(813,000)	(182,000)
Total	$ (1,304,000)	$5,565,000

Total income tax provision (benefit) relating to continuing operations for the years ended January 31, 1976 and 1975 amounted to

$(6,563,000) and $5,197,000, respectively, representing effective income tax rates of (26.1)% and 8.5%, respectively. These amounts are different from the amounts of $(12,088,000) and $(29,284,000), respectively, computed by applying the statutory Federal income tax rate of 48% to income (loss) attributable to continuing operations before provision (benefit) for income taxes and minority interest. The reasons for the variances from the statutory rate were as follows:

	Percent of Pre-tax Income (Loss) Year Ended January 31,	
	1976	1975
Statutory rate	(48.0)%	(48.0)%
Increase (decrease) in income tax rate resulting from:		
Sale of non-consolidated subsidiary	13.3	—
Amortization of excess of cost of investments over related equities and other intangibles	10.2	4.3
State tax provision (net of Federal income tax effect)	8.6	4.7
Amortization of excess of equity over cost of investment	(4.3)	(1.9)
Foreign income	(3.0)	2.0
Investment tax credit	(1.9)	—
Tax exempt income from Puerto Rico sources	(.5)	(1.9)
Operating losses not tax effected	—	40.9
Adjustment of foreign tax credits	—	8.6
Write-off of excess cost	—	1.4
Other	(.5)	(1.6)
Actual income tax rate	(26.1)%	8.5%

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid, Glen Alden and McCrory have been substantially completed for the periods ended January 31, 1970, December 31, 1969 and January 31, 1970, respectively. While the liabilities for the above-mentioned periods and subsequent years are subject to final determination, the amount accrued in the consolidated balance sheet, in the opinion of management, is believed to be adequate to cover amounts which ultimately may be payable.

13. PENSION AND RETIREMENT PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension and retirement plans covering eligible employees. The provision for pension costs relating to continuing operations under the plans was $7,372,000 and $4,964,000 for the years ended January 31, 1976 and 1975, respectively. It is the general policy to fund pension cost accrued as required. As of January 31, 1976, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $19,000,000. Unfunded prior service cost amounted to approximately $27,000,000 at January 31, 1976, substantially all of which is being funded over various periods not exceeding thirty years. In August 1975, a subsidiary's pension plan was amended, retroactively to January 1, 1975, to provide additional benefits for participants. Principally as a result of such amendment, the January 31, 1975 excess of the actuarilly computed value of vested benefits over the related pension fund and balance sheet accruals, increased by approximately $12,000,000, and the unfunded prior service cost increased by approximately $11,600,000.

For plan years beginning after December 31, 1975, certain pension and retirement plans of Rapid and its subsidiaries will be required to be amended so as to comply with the provisions of the Employee Retirement Income Security Act of 1974. Based upon current actuarial computations, compliance with such Act will not have the effect of substantially increasing the amount of periodic provision for pension expense, periodic funding of pension costs and unfunded vested benefits.

14. EXTRAORDINARY CREDIT

In the year ended January 31, 1976, Rapid recorded an extraordinary credit of $14,715,000, representing the utilization of net operating loss and foreign tax credit carry-forwards generated in prior years (see Note 12).

15. INCOME (LOSS) PER SHARE OF COMMON STOCK

Primary income (loss) per share is based on the weighted average number of common shares outstanding during each year and gives effect to the assumed exercise and conversion of common stock equivalents. In addition, when appropriate, it has been assumed that a portion of the proceeds from such assumed exercises, when dilutive, were applied to the purchase of common stock and the balance applied to reduce outstanding debt. Rapid's equity in preferred dividend requirements of its consolidated subsidiaries ($707,000 and $710,000 for the years ended January 31, 1976 and 1975, respectively) has been deducted in determining net income (loss) applicable to common stockholders and primary income (loss) per share amounts.

Reported income (loss) per share assuming full dilution cannot increase primary income per share nor reduce primary loss per share. For the years ended January 31, 1976 and 1975, the above-mentioned assumed conversions of convertible securities and exercise of stock options and warrants resulted in anti-dilution; accordingly, income (loss) per share assuming full dilution has not been presented in the statement of consolidated operations.

16. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the leases generally range from 10 to 40 years and provide for the payment of additional rentals based upon percentages of sales, plus in certain instances, real estate taxes, insurance and maintenance costs. Many of the leases are noncapitalized financing leases, as defined by the Securities and Exchange Commission.

Aggregate rent expense, net of minor sublease income, for the years ended January 31, 1976 and 1975, consists of basic and contingent rents as follows:

	Year Ended January 31, 1976	1975
	(In millions)	
Basic rents:		
Noncapitalized financing leases	$33.0	$ 42.2
Other	40.0	47.9
Contingent rents:		
Noncapitalized financing leases	2.8	3.2
Other	13.0	7.6
	$88.8	$100.9
Continuing operations	$85.5	$ 87.8
Operations discontinued or sold	3.3	13.1
	$88.8	$100.9

The minimum rental commitments, net of minor sublease income, in effect at January 31, 1976 are as follows:

Years Ending January 31,	Continuing Operations Financing Leases	Continuing Operations Total(a)	Operations Discontinued or Sold Financing Leases	Total(a)
	(In Millions)			
1977	$ 30.4	$ 65.3	$ 5.8	$ 71.1
1978	29.3	62.2	5.2	67.4
1979	28.1	59.6	5.2	64.8
1980	27.0	56.7	5.2	61.9
1981	25.0	52.9	5.2	58.1
1977-1981	139.8	296.7	26.6	323.3
1982-1986	100.8	219.3	23.8	243.1
1987-1991	64.0	144.0	14.7	158.7
1992-1996	35.1	67.8	9.5	77.3
Thereafter	29.2	33.2	5.2	38.4
Total	$368.9	$761.0	$ 79.8	$840.8

(a) Includes financing and other leases.

Total minimum rental commitments, total commitments and present values of noncapitalized financing leases, and the range and weighted average of interest rates used in computing present values of financing leases at January 31, 1976 are as follows:

	Continuing Operations			
	Real Property	Equipment and Fixtures	Operations Discontinued or Sold	Total
	(Dollar Amounts In Millions)			
Total minimum rental commitments	$732.3	$28.7	$79.8	$840.8
Total noncapitalized financing lease commitments	$340.4	$28.5	$79.8	$448.7
Present values of noncapitalized financing lease commitments	$207.9	$20.1	$45.6	$273.6
Interest rates used in computing present values:				
Range	4.7% to 10.8%	5.0% to 12.8%	3.5% to 10.0%	3.5% to 12.8%
Weighted average	6.4%	6.5%	5.9%	6.3%

If all leases identified as noncapitalized financing leases had been capitalized, the effect on net income (loss) would not have been significant.

17. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions brought by private individuals in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and claims have been asserted against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are requested. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, it is not possible to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis.

At January 31, 1976 Rapid was guarantor of notes and other obligations or remained contingently liable under certain long-term leases on properties sold in the approximate amount of $144,000,000.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK, NEW YORK 10004

AUDITORS' OPINION

The Board of Directors and Stockholders
of Rapid-American Corporation:

We have examined the consolidated financial statements of Rapid-American Corporation and subsidiaries ("Rapid") for the years ended January 31, 1976 and 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose contribution to consolidated revenues (including revenues of operations discontinued or sold) was approximately 23% and 20%, respectively, for the years ended January 31, 1976 and 1975. These statements were examined by other accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports of the other accountants.

For the reasons set forth in Note 12, Rapid's financial statements for the year ended January 31, 1975 have been restated, as recommended by the accounting staff of the Securities and Exchange Commission, to eliminate future tax benefits, arising principally from the net operating loss carry-forward, recognized in the original statements. Although we disagree with that recommendation, we construe it as subsequent evidence, not available or reasonably anticipated when the original statements were issued, which causes the restatement to be an acceptable alternative accounting treatment.

Our opinion dated April 30, 1975, with respect to the financial statements of Rapid for the year ended January 31, 1975 was qualified subject to adjustments, if any, which may result from the ultimate resolution of the phase-out of the operations of S. Klein Department Stores, Inc. As discussed in Note 3, developments to date have progressed to the stage where the ultimate resolution of the S. Klein phase-out is not expected to have a material effect upon Rapid's consolidated financial position and accordingly, our qualification with respect thereto is no longer necessary.

As discussed in Note 17, substantial damages are being sought against Rapid and certain of its subsidiaries in various pending actions and asserted claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to adjustments, if any, which may result from the ultimate outcome of pending actions and claims referred to in the preceding paragraph and based upon our examination, the reports of other accountants and the subsequent evidence referred to in the second paragraph above, the accompanying consolidated balance sheet and statements of consolidated operations, consolidated stockholders' equity and changes in consolidated financial position present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1976 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

April 14, 1976

PER SHARE MARKET PRICES AND DIVIDEND INFORMATION

The high and low reported market prices and quarterly dividends paid (see Note 7 to Financial Statements) for Rapid-American Common and Preferred Stocks during the past two fiscal years were as follows:

	FISCAL YEARS ENDED JANUARY 31,					
	1976			1975		
	Market Price		Dividends Paid	Market Price		Dividends Paid
	High	Low		High	Low	
Common Stock						
1st Quarter	$ 8¼	$ 5¾	$ .12½	$16⅛	$12⅝	$ .25
2nd Quarter	6½	5½	—	13½	7¼	.25
3rd Quarter	6½	5	—	9⅞	6⅜	.25
4th Quarter	6⅜	4⅞	—	9⅞	5	.25
For the Year	8¼	4⅞	$ .12½	16⅛	5	$1.00
$3 Preferred Stock						
1st Quarter	25½	22½	$ .75	51½	41	$ .75
2nd Quarter	26½	22½	.75	41	25	.75
3rd Quarter	26½	21¾	.75	30	24½	.75
4th Quarter	25	22	.75	30	19	.75
For the Year	26½	21¾	$3.00	51½	19	$3.00
$2.25 Preferred Stock						
1st Quarter	23	18¾	$ .56¼	45	40½	$ .56¼
2nd Quarter	23	18	.56¼	40	24	.56¼
3rd Quarter	21	18	.56¼	26	19½	.56¼
4th Quarter	21	17¾	.56¼	26	14⅜	.56¼
For the Year	23	17¾	$2.25	45	14⅜	$2.25

Rapid-American's $3.15 Preferred Stock is traded in the over-the-counter market, but no active trading market exists. Quarterly dividends of $.78¾ have been paid on this issue in each of the last two fiscal years.

rapid-american corporation and subsidiaries

PRINCIPAL PUBLICLY TRADED SECURITIES (Symbol: **RPD**)

Security	Transfer Agent(s) or Trustee	Stock Exchange Listing(s)	Outstanding April 15, 1976
Common Stock	Chemical Bank New York, N. Y. and The Fidelity Bank Philadelphia, Pa.	New York Cincinnati Pacific	7,852,218 shs.*
Redeemable Warrants, expiring 1994	Chemical Bank New York, N. Y.	American Pacific	3,965,883 wts.*
$2.25 Cumulative Convertible Junior Preferred Stock	Chemical Bank New York, N. Y.	New York	264,534 shs.
Class B Senior Cumulative Convertible ($3) Preferred Stock	Marine Midland Bank New York, N. Y.	New York	109,649 shs.
7½% Sinking Fund Subordinated Debentures, due 1985	Bradford Trust Company New York, N. Y.	New York	$74,276,000
6% Sinking Fund Subordinated Debentures, due 1988	Marine Midland Bank New York, N. Y.	New York	$314,128,000*
7% Subordinated Debentures due 1994 (1969 & 1972 issues)	American Bank & Trust Company New York, N. Y.	New York	$118,043,000

* Excludes amounts held by Rapid-American and owned by subsidiaries.

PRINCIPAL SUBSIDIARIES AND DIVISIONS

Schenley Industries, Inc.

McCrory Corporation:
- Lerner Shops
- OTASCO Stores
- McCrory, McLellan, H.L. Green and J.J. Newberry Variety Stores
- Britts Department Stores

Rapid-American Menswear, Inc.:
- Botany '500'
- Cross County Clothes
- New Era

Leeds Travelwear

The B.V.D. Company, Inc.:
- Wonderknit Corporation
- Gilead Manufacturing Corporation
- Beau Brummell Ties, Inc.
- Fordham-Bardell Shirt Corp.
- B.V.D. Knitwear, Inc.

rapid-american corporation

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